

Royalty-in-Kind Pilot  
for  
Oil from Federal Leases in Wyoming

- Investigation of taking the federal share of mineral royalties as a share of the actual product (royalty in kind or RIK) is an innovative, but unproven, approach to DOI's responsibilities that has been under active consideration by MMS since 1994.
- An MMS 1997 Feasibility Study concluded that, under the right conditions, RIK could be workable, revenue positive, and administratively more efficient for government and industry. The study also concluded that a mandatory across-the-board RIK program would reduce Federal royalty revenues.
- Pursuant to the 1997 study's recommendations, MMS is conducting, in collaboration with the State of Wyoming, development and implementation of a pilot program to take crude oil royalties from federal leases within the boundaries of Wyoming as a share of production (i.e., "in-kind" rather than "in-cash") and subsequently sell that crude oil in the open oil market.
- The objectives of this pilot program are to test the propriety of the RIK concept for collecting federal oil royalties.
- MMS has identified federal leases in the Powder River and Big Horn Basins producing a total of about 4,000 bbls/day of varying qualities of crude oil (sweet, sour, and asphaltic) from properties with varying characteristics (e.g., high, medium and low production volumes, varying royalty rates, piped and trucked production).
- About 10% of federal properties and 20% of federal leases in Wyoming will be involved.
- Plans presently include beginning the pilot in the Fall of 1998, and continuing the project for at least two years.
- In addition to the Wyoming project, MMS is developing at least two other RIK pilot programs based on the recommendations in the MMS 1997 RIK Feasibility Study. They are an offshore natural gas RIK pilot in the 8(g) waters off Texas, and an offshore Gulf of Mexico natural gas RIK pilot.
- Involvement of other federal agencies in the pilots is being considered as well.
- The following criteria have been established for evaluating the success of the 3 RIK pilots:
  - simplicity, accuracy, certainty for lessees and government;
  - revenue neutral (or better) for government;
  - reduced administrative burden for lessees and government; and
  - consistency with terms of existing leases.